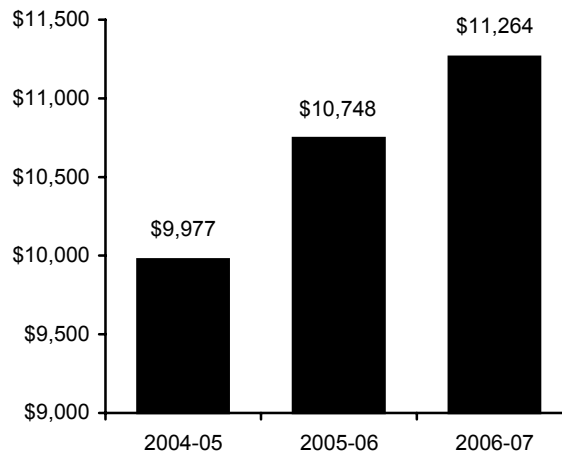


K thru 12 Education

The Budget Act of 2006 includes a significant increase in funding for California's schools. New funding provides additional resources for restoration of arts and music, physical education, career technical education, preschool expansion, after-school programs and school counselors for grades 7 through 12. The Budget also includes a significant increase in discretionary funding which allows schools to address local needs.

The total funding from all sources available to kindergarten through grade 12 (K-12) education increases by \$2.9 billion over the revised 2005 Budget bringing total funding to \$67.1 billion in for the 2006-07 fiscal year. The 2005-06 revised per pupil funding of \$10,748 represents an increase of \$423 from the 2005 Budget Act level of \$10,325. Funding per pupil from all sources for 2006-07 is \$11,264, an increase of \$516 from the revised 2005-06 level. (see Figure K12-01).

Figure K12-01
Total K-12 Funding Per Pupil



Proposition 98 Guarantee

Total Proposition 98 funding in 2006-07 for K-12 and community colleges is budgeted at \$55.1 billion, which reflects a 3.3 percent increase over the revised estimate for 2005-06.

The General Fund comprises approximately 75 percent of the total, or \$41.3 billion (see Figure K12-02).

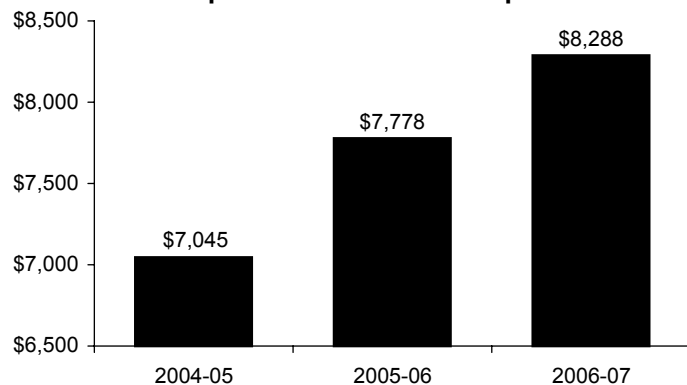
Figure K12-02
Proposition 98
(Dollars in Thousands)

	2004-05	2005-06	2006-07
General Fund	\$34,034,274	\$38,420,035	\$41,294,823
Local Revenue	13,020,472	13,626,441	13,826,507
Total Funded Guarantee	\$47,054,746	\$52,046,476	\$55,121,330
Settlement Agreement	1,620,928	1,298,944	
Total Guarantee	\$48,675,674	\$53,345,420	\$55,121,330

The \$55.1 billion Proposition 98 funding level for 2006-07 also includes an increase of \$426 million associated with the full implementation of Proposition 49. Beginning in 2006-07, Proposition 49 will increase state funding for the After-School Education and Safety Program to \$550 million per year.

The estimated Proposition 98 per pupil funding, as shown in Figure K12-03, rises to \$8,288 in 2006-07, representing an increase of \$510 from the revised 2005-06 level. Total Proposition 98 General Fund allocations of \$37.1 billion for K-12 education are 40 percent of the General Fund budget which is subject to the state appropriations limit.

Figure K12-03
Proposition 98 K-12 Per Pupil



Furthermore, to resolve the pending lawsuit regarding Proposition 98 funding, the Administration has agreed to calculate the Proposition 98 guarantee consistent with the legislative intent language contained in Chapter 213, Statutes of 2004. As a result, the state will pay \$2.9 billion in settle-up funding, comprised of approximately

\$1.6 billion and \$1.3 billion to count toward the Proposition 98 guarantees for 2004-05 and 2005-06, respectively. In order to provide resources to offset the cost for the initial years of the settlement schedule, the Administration is proposing legislation to authorize the refinancing of the Golden State Tobacco Securitization Corporation's 2003A bonds. This refinancing involves a new structure for using the tobacco settlement payments in a way that will generate additional proceeds of \$900 million for the state without jeopardizing payments to the existing bondholders.

In 2004-05 the total Proposition 98 funding was \$48.7 billion. This total includes the funds that are to be provided as part of the settlement agreement, of which the General Fund share was \$35.7 billion. The total Proposition 98 funding for 2005-06 is now estimated at \$53.3 billion, which again includes funds that are to be provided as part of the settlement agreement. The settlement agreement reflects a 9.6 percent increase over 2004-05. The General Fund share in 2005-06 is \$39.7 billion. This funding level has been adjusted for changes in attendance and costs for apportionment programs.

Expenditure Highlights

The Budget Act includes significant new one-time and ongoing education initiatives.

Arts and Music Block Grant

The 2006-07 Budget includes \$105 million Proposition 98 General Fund for an annual Arts and Music Block Grant program. These funds will be distributed to school districts, charter schools and county offices of education to support standards aligned instruction in kindergarten through grade twelve. The funds will be available for hiring additional staff, staff development, purchasing materials, books, supplies and equipment. The funding will be allocated at an equal amount per pupil, with a minimum of \$2,500 for school sites with twenty or fewer students and a minimum of \$4,000 per site with more than twenty students.

Physical Education Grants

The Budget includes \$40 million Proposition 98 General Fund for ongoing incentive grants for school districts to hire more credentialed physical education teachers in elementary and middle schools. These funds will help schools address the rising incidence of obesity and its negative effects by ensuring that schools have trained physical education experts to provide the required number of instructional minutes in physical education. These funds will be used to hire credentialed staff to help kids develop healthy life-long exercise habits. Grants

of \$35,000 will be made available to approximately 1,100 schools serving any of grades kindergarten through eight.

Arts, Music and Physical Education One-time Equipment Grants

The Budget also includes \$500 million Proposition 98 General Fund on a one-time basis for the purchase of arts, music and/or physical education supplies and equipment. With these resources, schools will be able to make significant investments in items such as musical instruments, kilns, photographic equipment and multi-media design equipment. Further, this significant investment of resources will allow schools to make meaningful investments in order to improve and expand the infrastructure of physical education programs to help address the rising incidence of obesity. Grants will be allocated to school districts, charter schools and county offices of education on an equal amount per pupil, based on the number of pupils in kindergarten and grades one through twelve, with a minimum funding level of \$2,500 for small schools.

Supplemental School Counseling Program

The Budget includes \$200 million ongoing Proposition 98 General Fund to increase the number of school counselors that serve seventh through twelfth grade students. These funds are intended to supplement, not supplant, existing counseling resources and improve the counselor to student ratio for these grades. These new counselors will provide students with information on all educational and vocational options available to them and serve students who have failed or are at risk of failing the California High School Exit Examination, as well as students who are at risk of not graduating due to insufficient credits.

Targeted Preschool Initiative

The Budget provides \$50 million Proposition 98 General Fund to expand preschool programs to serve four-year olds. This expansion will also include quality reforms designed to promote family literacy. Funding for this purpose will be pursuant to legislation.

The Budget also provides an increase of \$50 million one-time Proposition 98 General Fund in the Child Care Facilities Revolving Fund to address facility needs for preschool expansion, pursuant to current law.

K-12/Community College Career Technical Education

The Budget includes \$100 million for public schools and community colleges, including \$20 million in ongoing funding to support the second year of the Governor's Career Technical

Education Initiative, which is aimed at improving collaboration between the community colleges and K-12 career technical programs. The activities in this program are primarily designed to reinvigorate career education in public schools to ensure that students have greater choices and access to the skills needed for the increasingly demanding technical jobs required for the economy of today and tomorrow. As such, much of the core ongoing funding is intended for partnerships at the local level between K-12 and community colleges which focus on improving curriculum, course sequencing and articulation within specific career sectors that have been identified as critical to regional industries and employers that support the state's economy.

In addition to the ongoing funds, the Budget provides \$80 million in one-time funding in separate legislation to purchase state-of-the-art equipment for programs in public schools (\$40 million) and community colleges (\$40 million). Eligible K-12 entities include school districts, adult education programs, regional occupational centers and programs, as well as charter schools and county offices of education that offer appropriate programs. Of this amount, \$2.5 million is earmarked to support a targeted K-12 nursing career pathway program. These one-time funds complement the ongoing resources by ensuring that students have access to the latest equipment utilized by technicians in today's workplace to ensure students will be employable in a promising career upon high school graduation or will be ready to smoothly transition to higher skill levels in that career sector at the community colleges.

Professional Development for Teachers of English Learners

The Budget includes \$25 million Proposition 98 General Fund to provide ongoing additional professional development opportunities for teachers of English Learners. The training will be provided through the Mathematics and Reading Professional Development Program model pursuant to legislation.

Low-Performing School Enrichment Block Grant (Teacher and Principal Recruitment and Retention)

The Budget includes \$50 million one-time Proposition 98 General Fund for the Low-Performing School Enrichment Block Grant to improve the recruitment and retention of teachers and principals. These funds will be available to schools in the bottom three deciles of the Academic Performance Index. The funds will be available to improve the educational environment and culture through activities including: (1) assuring a safe, clean school environment for teaching and learning; (2) providing support services for students and teachers; (3) activities, including differential pay, focused on the recruitment and retention of teachers who meet the definitions of a highly qualified teacher and of highly skilled principals;

(4) small group instruction; and (5) providing time for teachers and principals to collaborate focusing on improving academic outcomes for students.

Instructional Materials, School Libraries and Education Technology Grants

The Budget includes \$100 million in one-time Proposition 98 funds for the purchase of instructional materials, school and classroom library materials and one-time technology costs. High-quality instructional materials for every student are a fundamental building block of a strong educational program and are required under the Williams settlement. These resources will help schools fill gaps in their instructional material programs and replace lost textbooks. Further, school libraries play a vital role in promoting academic achievement and providing instructional support. The resources provided in the Budget will help to replenish and refresh both school and classroom library materials. In addition to the purchase of books and materials, these funds are available for the purchase of one-time education technology which provides schools with many options for enhancing instruction through the use of electronic multimedia materials. Grants will be allocated to school districts and county offices of education on an equal amount per pupil based on the number of pupils in kindergarten through grade 12.

Mathematics Teacher Pilot Program

The Budget includes \$1.8 million Proposition 98 General Fund one-time for a pilot program to establish essential links between higher education and secondary-level math programs. The goal of the Mathematics Teacher Pilot program is to improve the level of mathematics instruction in California by both ensuring that there are quality math instructors in secondary schools to increase student proficiency in mathematics and by encouraging upper-level college math majors to enter the teaching profession in districts most in need.

Major Program Adjustments

The Budget Act includes the following significant changes to major education programs:

Enrollment Growth

The Budget provides \$112.4 million for K-12 enrollment growth increases. Because statewide K-12 enrollment growth is projected to be negative for 2006-07, growth costs were limited to certain programs with targeted populations, such as Economic Impact Aid (\$29.3 million) and Adult Education (\$15.1 million).

Cost-Of-Living Adjustments

The Budget includes over \$2.6 billion to provide a 5.92 percent cost-of-living adjustment (COLA) to K-12 programs. Included in this amount are funding for school apportionments (\$1.9 billion), special education (\$184.3 million) and K-3 class size reduction (\$182.5 million).

Revenue Limits

Revenue limit funding constitutes the basic funding source for classroom instruction.

The Budget provides a net increase of \$2.3 billion to school district and county office of education revenue limits, which includes the decrease due to anticipated average daily attendance declines, the increase due to the COLA factor and an adjustment to account for revised local revenues. This figure also incorporates the cost of eliminating the deficit factor and the proposed increase in equalization funding discussed below.

Deficit Reduction

The Budget includes \$308.6 million to completely eliminate the deficit factor for school district and county offices of education revenue limits. This funding compensates local education agencies for reduced COLAs provided in prior years and provides an ongoing source of general purpose funding.

Equalization

The Budget includes \$350 million for school district revenue limit equalization to address the disparity in base general-purpose funding levels across school districts. These funding disparities are rooted in historical changes to property tax law and result in less funding being provided to some districts than is provided to other, equally situated school districts. The \$350 million proposed for 2006-07 will erase close to three-quarters of the remaining disparity.

K-12 Education Mandates

The Budget provides approximately \$957 million in Proposition 98 General Fund to fund K-12 mandate costs. Of that amount, \$927 million is for the purpose of paying off prior year claims. This largely eliminates the accumulated debt the state has incurred from deferring mandate payments.

Charter Schools

The Budget provides a \$32.9 million increase for the charter school categorical block grant to fully fund the provisions of Chapter 359, Statutes of 2005. Charter schools will also receive \$9 million to fund facility leasing costs for schools that serve low-income student populations.

Economic Impact Aid

The Budget includes a \$350 million Proposition 98 General Fund augmentation to the Economic Impact Aid Program to help close the achievement gap of English learner and economically disadvantaged students. The funds will support additional programs and services for these students.

School Nutrition Program

The Budget includes \$3 million one-time Proposition 98 General Fund to meet an increased demand for School Breakfast Program startup and expansion grants. These grants will allow more schools to participate in the School Breakfast Program and the California Fresh Start Pilot Program, which will result in more students receiving nutritious breakfasts that include more fruit and vegetable choices.

Child Care Programs

The Budget provides an increase of \$67 million Proposition 98 General Fund to offset increased caseload costs associated with adjusting the income eligibility ceiling for child care services to reflect 75 percent of the current state median income. Corresponding legislation would require the State Department of Education to update the existing family fee schedule for families that are newly eligible to receive, or will continue to receive, child care services under the adjusted income eligibility ceiling. This legislation would also require that fees not exceed 10 percent of a family's monthly income.

After-School Programs

In 2002, California voters approved Proposition 49, significantly expanding access to before and after-school programs. Proposition 49 also established funding priorities and expanded program activities to include computer training, fine arts and physical fitness. In 2005-06, the state After-School Education and Safety (ASES) Program was funded at \$121.6 million, serving more than 100,000 children annually. Beginning in 2006-07, Proposition 49 will provide an increase of \$428 million over that funding level.

Other Major Budget Adjustments

The Budget Act includes other major budget adjustments outlined below.

One-Time Discretionary Block Grant

The Budget includes \$533.5 million one-time Proposition 98 General Fund for a discretionary block grant, of which 75 percent is for school site programs and the remaining 25 percent can be used to address district wide issues. School site councils can use their portion of the funds for programs including, but not limited to, the following: instructional materials, classroom and lab supplies, arts and music supplies, physical education equipment, school and library materials, education technology, deferred maintenance, professional development and efforts to close the achievement gap. School districts may also put their portion of these funds to uses such as home-to-school transportation or outstanding one-time fiscal obligations, as well as most of the programs indicated above.

English Learner Supplemental Instructional Materials

The Budget includes \$30 million one-time Proposition 98 General Fund to provide supplemental instructional materials for English learners in grades kindergarten through twelve. Schools must use the funds to purchase supplemental materials that will accelerate pupils as rapidly as possible to grade level proficiency in speaking, reading and writing English.

District Fiscal Solvency Plans

The Budget provides \$10 million for local education agencies with outstanding obligations to create a plan for meeting those obligations. These plans would be reviewed by county superintendents of schools as part of the budget development process and help ensure the long-term solvency of school districts.

CALPADS-CSIS Transition

The Budget includes \$31 million (\$20 million from the Educational Telecommunication Fund and \$11 million one-time Proposition 98 General Fund) to prepare schools for the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). These funds are available for three years so that all districts may upgrade hardware and software to improve their ability to collect and analyze pupil data to help ensure data integrity and a smooth, effective transition to the new statewide longitudinal student data base. The Budget also includes \$2.6 million over three years for the California School Information Services (CSIS) to support districts in their transition to CALPADS.

Teacher Database System

The Budget includes \$938,000 from federal Title II Improving Teacher Quality carryover funds for development of the statewide Teacher Database System. The amount proposed will allow the Department of Education and the Commission on Teacher Credentialing to begin development of the system by issuing a request for proposals and by beginning initial data management activities necessary for successful implementation of the database.

California High School Exit Exam

The Budget includes \$5.1 million Proposition 98 General Fund to develop two additional administrations of the California High School Exit Examination (CAHSEE) to accommodate students who attend school at non-traditional times, such as evenings and weekends, and provide students with additional opportunities to pass the examination.

The Budget also includes \$75.1 million Proposition 98 General Fund for the CAHSEE Supplemental Instruction Program to provide additional supplemental instruction to pupils who have failed or are at risk of failing the CAHSEE. Funds will be used for services such as hiring additional teachers and purchasing, scoring and reviewing diagnostic assessments. It is intended that these funds supplement, not supplant, the existing Supplemental Instruction Program funds. Of the funds provided, \$5.5 million will be available on a one-time basis to purchase intervention materials tailored to the individual needs of students who have failed or at risk of failing the CAHSEE.

Foster Youth Services

The Budget includes an \$8.2 million Proposition 98 General Fund augmentation for the Foster Youth Services Program. The additional funding will be available to school districts for services such as mentoring, tutoring, transitional services, vocational training and other services designed to enhance the educational prospects of foster children.

Oral Health Assessment for Kindergartners

The Budget includes \$4.4 million Proposition 98 General Fund for schools to administer a new requirement that children entering kindergarten receive an oral health assessment to determine their current oral health and to instill good dental hygiene practices. Specifically, parents with children entering kindergarten will be required to present proof that their child has received an oral health assessment by a licensed dentist or other licensed or registered oral health professional.

School Gardens

The Budget includes \$15 million Proposition 98 Reversion Account to revitalize the School Garden Program so that students can experience the important educational benefits that come from growing fruits, vegetables and plants.

English Learner Research on Best Practices

The Budget provides \$20 million one-time Proposition 98 General Fund to research best practices for English learners. The funding would be used for a three-year pilot project to identify existing best practices regarding curriculum, instruction and staff development for teachers of English language learners and for promoting English acquisition and development. The project will be evaluated for its effectiveness at the conclusion of the three-year study.

Other K-12 Agencies

The Budget Act also includes adjustments to the following education related agencies.

California State Library

The Budget provides a \$7 million General Fund increase to the Public Library Foundation (PLF) program and an additional \$7 million General Fund increase for the transaction-based Interlibrary Loan and Direct Loan Program. The augmentation to the PLF will enhance base support for local libraries, allowing for longer hours of operation, the purchase of more books or expenditures for other local priorities. The increase to the Interlibrary and Direct Loan programs will allow local libraries to recoup costs incurred when libraries share resources with other library districts, thereby encouraging efficient resource allocation.

California Commission on Teacher Credentialing and Other Credentialing Reforms

The Budget includes \$1.3 million Proposition 98 General Fund to provide for a rate increase for the Paraprofessional Teacher Training Program. Funding for each paraprofessional seeking a teaching credential will increase from \$3,000 to \$3,500. This program helps increase the number of highly qualified teachers in our classrooms by helping to offset the costs of tuition, fees and books for paraprofessionals who have agreed to complete a teacher preparation program and work in a California classroom. The rate has not been increased since 1997.

Further, \$18 million Proposition 98 General Fund is included to establish a new Certificated Mentor Teacher Program to encourage successful, experienced teachers to mentor and support new teachers just entering the field, to increase the duration and intensity of the

Alternative Certification (Intern) Program and to increase the Intern per participant rate from \$2,500 to \$4,000. An additional \$1.7 million in federal Title II grant funding is available for evaluations of the Intern program, beginning teacher induction programs and special education teacher preparation credentialing. The combined use of these funds will help the state move toward a more efficient and streamlined teacher credentialing process to ensure we reach the goal of a fully credentialed, highly qualified teacher in every classroom.